

WELCOME TO A NEW ERA



Progress



Progress Energy Ltd. is a junior oil and natural gas exploration and production company headquartered in Calgary, Alberta, Canada. The company has recently been re-capitalized, has put in place a new management team and is moving towards a new era.

Progress promotes a fast paced, team-oriented work environment, which will contribute to the achievement of ambitious growth plans. The Company focuses on natural gas and light oil projects, placing a strong emphasis on efficient discovery and production of reserves yielding long-term profitable growth.

The annual general and special meeting of shareholders will take place on Tuesday, May 14, 2002 at 10:00 a.m. local time at the Sheraton Suites Eau Claire Hotel in Calgary, Alberta. All shareholders are invited to attend or submit their form of proxy if unable to.

Progress is listed on the Toronto Stock Exchange, symbol PGX.

To our Shareholders

Welcome to the New Era of Progress

		2001	2000
Operations	Production		
	Crude Oil and Liquids (<i>bbls/d</i>)	1,849	1,303
	Natural Gas (<i>mcf/d</i>)	7,027	5,718
	Total (<i>BOE/d</i>)	3,020	2,256
	Proven Reserves		
	Crude Oil and NGLs (<i>mbbls</i>)	3,958	4,425
	Natural Gas (<i>mmcf</i>)	21,581	21,025
	Total (<i>mBOE</i>)	7,555	7,930
Financial	(<i>\$ Thousands</i>)		
	Cash Flow From Operations	17,916	14,604
	Net Earnings	5,655	5,870
	Total Debt	17,414	21,926

Edward Kalthoff

*Vice President
Land*

Ed has over twenty years of experience in the oil and gas industry in increasing senior capacities and has been employed by Progress since June 2000. Mr. Kalthoff is a P.Land and has a Bachelor of Commerce degree.

Michael Culbert

*Vice President
Marketing
& Business
Development*

Mr. Culbert has twenty years experience in the oil and gas industry, the last six years with Encal Energy Ltd. in the role of Vice President of Marketing and Business Development. Michael holds a Bachelor of Science degree, Business Administration.

William Lewington

Controller

Bill has held various senior accounting positions in the oil and gas industry over the past twenty years and has been with Progress since April 1998. Mr. Lewington is a member of the Society of Management Accountants of Alberta.



David Johnson

*President &
Chief Executive Officer*

A Professional Engineer with more than twenty-five years experience, Dave was most recently the President of Calpine Canada and prior to its sale was the President and CEO of Encal Energy Ltd.

Steven Allaire

*Vice President
Finance & CFO*

Steve has more than twenty years in the industry. He was Vice President Finance & CFO at Encal Energy Ltd. and is a member of the Institute of Chartered Accounts of Alberta.



President's Letter to the Shareholders

I am pleased to introduce a new Progress to shareholders; a company that is positioned for an accelerated pace with a new management group, a solid base of production and reserves and an aggressive growth plan.

Management Change

In November 2001 a new management team was put in place to help take Progress to the next level. Michael Culbert, Steve Allaire and myself joined Ed Kalthoff and Bill Lewington to form this new team. Together we look forward to the opportunities ahead as we grow Progress.

Opportunity

As we pursue investments which can provide profitable growth, we must first assess the economic environment as well as the resource basin in which we operate. We believe that companies such as Progress are "right sized" to efficiently grow in the western Canadian sedimentary basin. It is true that the basin has matured with the majority of conventional discoveries tending to be smaller than just a decade ago, however, the resource potential is sufficient to support small to intermediate producers. Progress's talented technical team is experienced in the regions of western Canada where we have chosen to focus on.

The Canadian oil industry has experienced massive consolidation during 2000 and 2001. This trend to fewer, much larger corporations has created a void in the business. Filling this void are experienced management teams returning to the industry, investing in new ventures. Opportunity will emerge for this new wave as large companies rationalize their recently acquired assets. These trends, combined with the erosion in commodity prices over the past year will enable Progress to take advantage of this and build a strong company.

Cycles

Commodity price cycles continue to play a major role in the supply and demand of hydrocarbons in North America. Recognizing the volatility, we will strive to invest in projects which will generate earnings in all but the lowest points in the commodity pricing cycle. During periods of low prices we will add as much growth oriented project inventory as is possible. These additions will strengthen Progress and ensure our ability to add significant cash flow during periods of improved pricing.

Building A Quality Company

We will strive to build a quality company. We are building a top level technical and management team functioning in a creative, fast paced, results oriented environment. The asset base that will be assembled in the upcoming years must also contribute to the quality of Progress. Concentrated production properties able to yield efficiencies of scale will be complimented by operated, high working interest exploration acreage providing dominant positions in our focus areas. Our growth may be somewhat opportunity driven however a balance between light oil and liquid-rich natural gas is our objective.

2001 Results

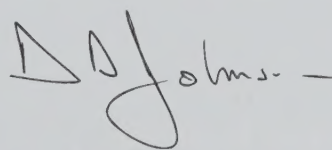
The achievements of 2001 and prior years have provided a solid foundation in terms of asset value and cash flow to support future years' growth. The Company's base assets are reliable in terms of production performance and will provide considerable opportunity in the future. There is room for increased efficiency in our operations and this will be pursued in the coming years. Total debt as we exit 2001 is \$17.4 million which is less than one year's cash flow giving us the flexibility to fund future growth internally.

2002 Investment Plan

Our investment plan for 2002 will remain flexible and opportunity driven. Approximately \$12 million or 70 percent of our forecasted cash flow for 2002 will be invested in and around our current assets. This investment will yield base production growth of approximately 20 percent over 2001. The balance of the capital program will provide incremental growth in both reserves and production as we build new project areas. These new areas will be assembled in Alberta and northeastern British Columbia through the combination of exploration partnerships and property acquisitions.

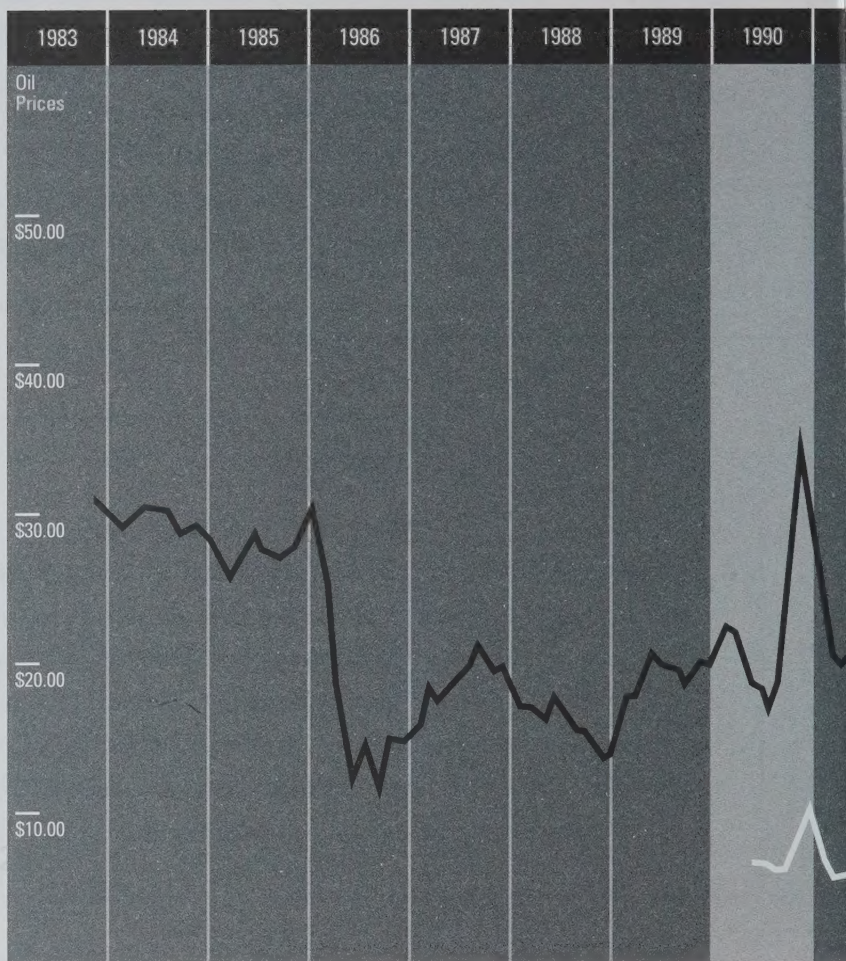
Thanks

On behalf of the Board of Directors I would like to recognize the efforts and support of the entire Progress team. As we enter this new era for Progress we will rely upon the creativity and diligence of our staff.



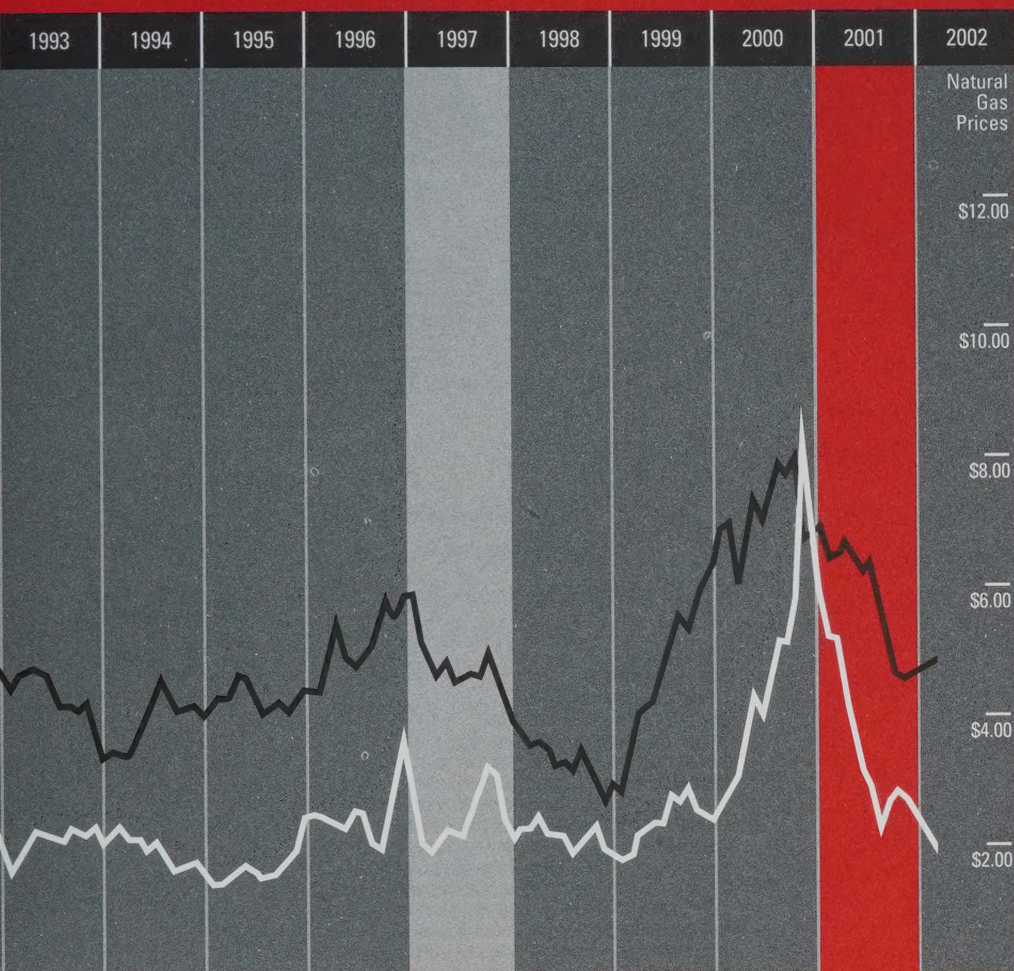
David D. Johnson
President & Chief Executive Officer
March 7, 2002

The opportunities to aggregate assets will likely be spurred on by the rationalization of assets following the wave of consolidations that occurred during 2000 and 2001. It is during these points in the cycle where assets can be accumulated at attractive prices.



Progress plans on taking advantage of the current environment to:

- Acquire land, enter into farm-ins to build large contiguous land positions and /or enter into large scale land/exploration joint ventures to capture land.
- Acquire assets in existing core areas to build dominance and leverage our technical knowledge.
- Acquire assets in new core area(s) through cornerstone acquisitions.



NYMEX WTI US\$/BBL

NYMEX Henry Hub
US\$/MMBTU

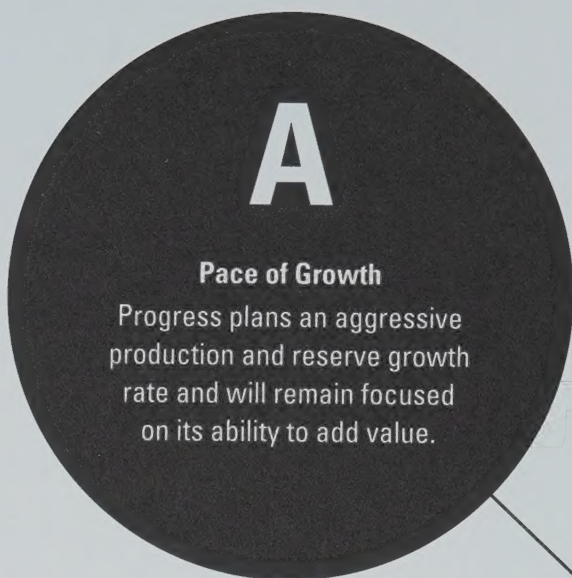
While it is difficult,
if not impossible
to predict future
commodity prices,
the volatility creates
opportunity.

O P P O R T U N I T I E S

Recent commodity
price weakness has become a
catalyst for rationalization and
realignment of assets in
the industry.

Progress Energy Ltd.

Cycle of Opportunity



Land & Seismic
20%

Equipment
10%

Drilling & Completions
70%

Gas

40%

Oil

60%

Progress Energy Ltd.
Platform of Growth

Budgeted 2002 capital invested in core asset development represents approximately 70 percent of cash flow. Incremental expenditures will target external opportunities and will be funded by cash flow and debt.

The Company's assets are currently weighted to crude oil with approximately 60% of production comprised of oil and 40% natural gas.

B

Discipline in Cost of Growth

Progress will be disciplined in the cost of reserve and production growth. The Company must remain profitable through the lower commodity price cycles. This can only be accomplished through cost discipline.

- Total capital expenditures for 2002 will be largely dependent on opportunities available. The Company will spend approximately \$12 million on its core development program of existing opportunities. This will generate approximately 20% production growth over 2001 levels.
- The balance of the capital program will be opportunity driven with; (1) acquisitions and exploitation capital on acquired assets, and (2) exploratory partnerships that allow for the capture of large blocks of land.
- These opportunities, if significant in size and strategic value may displace some of the core program capital as we build inventory in this part of the cycle.
- The Company is targeting a balance of light crude oil and natural gas
- The current landscape would suggest that Progress will be successful in the acquisition of crude oil properties while the majority of natural gas additions will be sourced through drilling activities.

Progress Energy Ltd.

Where We Operate

Existing Assets

The Company has a solid group of existing assets on which to build. The assets are operated, high working interest and are generally of a high quality. The Company will build from its largest property of Two Creek in west central Alberta and attempt to capture outlying opportunities.

In Saskatchewan, the Company will reinvest approximately 25 percent of the cash flow generated by these assets and explore on trend with our existing core assets. The objective is to build a stable production base.

The Milo asset is now substantially developed following the last two wells drilled during the first quarter of 2002.

Growth Plans -

Building a Quality Company

The Company's expansion will be in the defined fairway of the western sedimentary basin that typically delivers high quality crude oil and natural gas.

This area generally has drilling depths in the 1,000 meters to 2,500 meters range, multi zone potential, high netbacks and good infrastructure. The Company will focus on prospect areas with repeatability where the Company can build technical confidence and area dominance. The Company will strive for high working interest, operatorship and facility ownership. Expansion will focus on target areas in the Fort St. John region of northeast British Columbia, west central Alberta and potentially a shallow gas play in southeast Alberta.

Assets

British Columbia

The Milo area of northeast British Columbia represents approximately 5 mmcf per day of net natural gas production. The area consists of two Keg River gas pools and five producing wells that are operated by Progress. The average working interest is 21 percent. This high quality property provides strong cash flow and provides exposure to the northwestern United States natural gas prices.

Alberta

Two Creek

The Two Creek area of west central Alberta represents approximately 900 bbls per day of crude oil production and 2,500 mcf per day of natural gas production. The area consists of two oil pools with a central battery and natural gas compression. The Company has a 100% working interest in this property. The area has vertical and horizontal well opportunities and the potential for an enhanced recovery scheme. The Company plans on exploring on trend for both oil and gas opportunities during 2002.



Southeast Saskatchewan/Manitoba

Saskatchewan and Manitoba

Southeast Saskatchewan represents approximately 1,000 bbls of crude oil per day primarily from four core properties Saskatchewan and Manitoba. The Company has an average 75 percent working interest. These properties produce light sweet crude and deliver high netbacks. The Company has engineering studies underway and is evaluating waterflood opportunities during 2002. The Company will conduct an on trend new pool exploration program to provide future development opportunities.

Stanley Prenioslo

*Manager Exploration
Saskatchewan*

A Professional Geologist with over twenty years of experience in the oil and gas industry.

Rick Bawol

*Exploitation
Manager*

Mr Bawol has twenty-one years of experience in the oil and gas industry. Mr. Bawol has a Bachelor of Science degree in Mechanical Engineering.

Kathleen Fox

*Manager Business
Development*

A Professional Engineer with over sixteen years of experience in the oil and gas industry.



David Christie

*Manager Exploration
South Alberta*

A Professional Geologist with over twenty-five years of experience in both Canada and the United States. Dave has a Masters of Science degree in geology.

Harvey Hansen

*Senior Production
Engineer*

Mr. Hansen has worked in the oil and gas industry for twenty-three years. He is a Hydrocarbon Engineering Technologist.

Jeff Screen

*Manager Production
Operations*

A Professional Engineer with over twenty years of experience in the oil and gas industry.

John Anderson

*Exploration
Manager
North Alberta*

A Professional Geologist with over twenty-three years of western Canadian geological experience.



Our Principles

- **Governance** – Progress practices strong corporate governance; investors expect it, our directors are committed to it.
- **Reporting** – We will deliver timely and full disclosure to our shareholders
- **Ethics** – We will conduct ourselves with the highest moral and ethical behaviour.
- **Employer of Choice** – We are committed to develop a work place where talented people add value and achieve their personal goals
- **Team Oriented** – We will create a strong goal oriented team environment that is aligned with shareholder goals. We will reward performance.
- **Aggressive Growth** – We will pursue a fast paced growth model leveraging our technical expertise and financial strengths.
- **Environment Health and Safety** – Progress is committed to protecting the environment, health and safety of its employees, its contractors and the general public.

Progress Energy Ltd.

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis as provided by the management of Progress Energy Ltd. should be read in conjunction with the financial statements presented in this annual report.

BOE PRESENTATION

For the purposes of calculating unit costs, natural gas is converted to a barrel equivalent ("BOE") using six thousand cubic feet equal to one barrel unless otherwise stated. This conversion conforms with the Canadian Securities Regulators proposed National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. BOE's are very approximate comparative measures that, in some cases, could mislead, particularly if used in isolation.

2001 HIGHLIGHTS

Management Change

- In November 2001 the Board of Directors announced the creation of a new management team. This management team consists of new members Mr. David D. Johnson as President and Chief Executive Officer, Mr. Steven A. Allaire as Vice President Finance and Chief Financial Officer and Mr. Michael R. Culbert as Vice President Marketing and Business Development who join existing members including Mr. Edward J. Kalthoff Vice President Land and Mr. William J. Lewington Controller.

Financings

- In conjunction with the management changes the Company completed a \$3.2 million private placement to the new members of the management team consisting of 553,498 common units at a price of \$2.43 per share and 700,000 flow-through common shares at \$2.65 per share. The common and flow-through units each consisted of one common share and one common share warrant. Each warrant is exercisable for one common share at \$2.65 per share after one year and for a period of three years after the date of issue.
- In December the Company completed a common share financing, on a bought deal basis, through a syndicate of Canadian underwriters. The Company issued 3,000,000 common shares at a price of \$3.55 for total gross proceeds of \$10,650,000. The net proceeds of the offering were used to reduce bank indebtedness.

Reserves

- The Company changed its reserve engineering firm to Gilbert Laustsen Jung Associates Ltd.
- For 2001 prior year reserve additions were adjusted downward resulting in lower year over year total proven reserves. Net proven reserve additions (after prior year reserve revisions) were 0.729 million boe on a proven basis and 0.306 million boe on a proven plus probable basis during 2001. Revisions to the prior period were primarily the result of the selection of more conservative recovery factors on the Company's major properties. Reserve additions before revisions of prior year were 1.878 million boe on a proven basis and 1,988 million boe on a proven plus probable basis and resulted in finding and development costs of \$13.54 per proven boe and \$12.79 per boe on a proven plus probable basis.

- Total proven reserves at December 31, 2001 were 7.555 million boe compared to 7.929 million boe in 2000.
- Total proven plus probable reserves at December 31, 2001 were 9.365 million mboe compared to 10.161 million boe in 2000.

Operations

- Production averaged 3,020 boe per day during 2001 compared to 2,256 boe per day in 2000, an increase of 34 percent.
- Crude oil and liquids production increased to 1,849 bbls per day compared to 1,303 bbls per day in 2000.
- Natural gas production increased to 7,027 mcf per day compared to 5,718 mcf per day in 2000.

Financial

- Revenue increased 12 percent to \$33.2 million compared to \$29.6 million in 2000.
- Cash flow increased 23 percent to \$17.9 million (\$0.98 per share) from \$14.6 million in 2000 (\$0.76 per share)
- Net earnings for the year ended December 31, 2001 were \$5.7 million (\$0.31 per share) compared to \$5.9 million (\$0.30 per share) in 2000.
- Net capital expenditures totaled \$25.4 million in 2001 compared to \$23.5 million on 2000.
- Total debt was \$17.4 million at December 31, 2001 compared to \$21.9 million at the same time in 2000. The reduction in total debt is a result of the two equity financings discussed above.
- During 2001 the Company’s 1,170,000 Class B shares were converted to 3,018,600 common shares. This combined with 4,253,498 common shares issued pursuant to the equity financings, the 397,500 issued on the exercise of options and the redemption of 610,900 shares as a result of a Normal Course Issuer Bid the Company had 22,087,398 common shares outstanding at December 31, 2001.

PRODUCTION

In 2001 Progress’s production increased 34 percent to 3,020 boe per day compared to 2,256 boe per day in 2000.

Production Summary

	2001	2000	1999
<i>Annual Production</i>			
- Oil and liquids (bbls)	674,958	477,052	293,147
- Natural gas (mcf)	2,564,720	2,092,678	1,380,998
<i>Daily Production</i>			
Oil and liquids (bbls/d)	1,849	1,303	803
Natural gas (mcf/d)	7,027	5,718	3,784
Total (boe/d) - 10:1	2,552	1,875	1,181
Total (boe/d) - 6:1	3,020	2,256	1,434



Oil and liquids production for the year increased 42 percent to 1,849 bbls per day from 1,303 bbls per day in 2000. This increase in production is largely due to increased production at Two Creek in Alberta, a result of drilling success and the acquisition of the remaining partner's working interest. This acquisition closed in October and was for approximately \$5.4 million. As a result of the acquisition Progress now has 100 percent working interest at Two Creek. Other production increases were realized from southeastern Saskatchewan at Clarilaw and Bellgarde due to successful development drilling and two acquisitions of various partners' working interests at Steelman Unit No. 7. As a result of these acquisitions the Company increased its working interest at the Steelman Unit No. 7 from 46 percent to 91 percent. These acquisitions closed during July and August and were approximately \$1.4 million.

Natural gas production increased 23 percent to 7,027 mcf per day in 2001 from 5,718 mcf per day in 2000. The increase in natural gas volumes is due to the successful 2001 winter drilling program at Milo in northeastern British Columbia. The Company discovered a new pool at Milo West. The discovery and two development wells drilled at Milo were placed on stream during April 2001. During the winter of 2002 two additional development wells were drilled, one at Milo West and one at Milo and the Company is constructing a 10 inch diameter pipeline to transport the increasing volumes. These new wells and the pipeline came on stream during March 2002.

The following table summarizes the Company's average production for the years ended December 31, 2001, 2000 and 1999 for Progress's key producing areas.

Principal Producing Properties (boe/d)

	2001	2000	1999
Two Creek, Alberta	1,117	617	198
Southeast Saskatchewan/Manitoba	1,061	925	575
Milo, British Columbia	624	322	262
Other	218	392	399
Total	3,020	2,256	1,434

COMMODITY PRICING

	2001	2000	1999
Average crude oil and natural gas liquids (\$/bbl)	31.81	40.44	24.38
Average natural gas (\$/mcf)	4.57	4.92	2.91

Crude Oil Pricing

West Texas Intermediate ("WTI") is the benchmark for North American oil prices and is the crude type upon which the NYMEX futures contract is based. Canadian crude oil prices are based upon refiner's postings at Alberta hubs like Edmonton and Hardisty or Taylor, British Columbia. These refiner's postings represent the WTI price at Cushing, Oklahoma less a transportation differential, the Canadian/US exchange rate, adjustments for relative quality and to some extent an adjustment for regional market conditions.

Progress' average field price reflects the refiner's posted price at the Alberta market centres less deductions for transportation from the field and adjustments for Progress' product quality relative to the posted price. Progress' average Alberta field price in 2001 was \$28.65 per barrel versus \$39.13 per barrel for the average of the light sweet postings at Edmonton, Alberta. This indicates that Progress's crude oil mix is a light to medium quality. Progress' Alberta crude oil production mix has become proportionally heavier over the past year as a result of increased production from the Two Creek A pool, which has a medium grade crude. Progress' average Saskatchewan field price in 2001 was \$34.19 per barrel versus \$39.13 for the average of the light sweet postings at Edmonton, Alberta.

Average pricing for oil and liquids decreased 21 percent to \$31.81 per bbl in 2001 from \$40.44 per bbl in 2000.

Crude Oil Production and Prices by Province

	2001		2000		1999	
	bbl/d	\$/bbl	bbl/d	\$/bbl	bbl/d	\$/bbl
Alberta	772	28.65	358	36.14	201	21.90
Saskatchewan and Manitoba	1,040	34.19	912	42.75	575	26.20
Total production and average sales price ⁽¹⁾	1,812	31.83	1,270	40.88	776	25.09

(1) Excludes hedging gains or losses

Alberta Crude Oil Prices

(\$/bbl)	2001	2000	1999
WTI (US \$/bbl at Cushing, Oklahoma)	25.90	30.20	19.24
Average exchange rate	1.5489	1.4854	1.4857
WTI (Cdn \$/bbl at Cushing Oklahoma)	40.12	44.86	28.58
Less: Differential Cushing, Oklahoma to Edmonton	(0.99)	(0.53)	(1.23)
Edmonton Light Sweet Posting (Cdn \$/bbl)	39.13	44.33	27.35
Less: Quality differential & transportation to Edmonton	(10.48)	(8.19)	(5.45)
Progress average field price in Alberta (Cdn \$/bbl)	28.65	36.14	21.90

Saskatchewan and Manitoba Crude Oil Prices

(\$/bbl)	2001	2000	1999
WTI (US \$/bbl at Cushing, Oklahoma)	25.90	30.20	19.24
Average exchange rate	1.5489	1.4854	1.4857
WTI (Cdn \$/bbl at Cushing Oklahoma)	40.12	44.86	28.58
Less: Transportation differential Cushing, Oklahoma to Edmonton	(0.99)	(0.53)	(1.23)
Edmonton Light Sweet Posting (Cdn \$/bbl)	39.13	44.33	27.35
Less: Quality differential & transportation to Edmonton	(4.94)	(1.58)	(1.15)
Progress average field price in Saskatchewan (Cdn \$/bbl)	34.19	42.75	26.20

Natural Gas Pricing

US natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana while Alberta and British Columbia are referenced off Nova Inventory Transfer ("NIT") or the AECO Hub and Station #2, respectively.

Natural gas pricing for the year decreased 7 percent to \$4.57 per mcf from \$4.92 in 2000. The Progress realized natural gas prices by province are detailed below.

Natural Gas Production and Prices by Province

	2001		2000		1999	
	mcf/d	\$/mcf	mcf/d	\$/mcf	mcf/d	\$/mcf
Alberta	3,162	5.47	3,713	5.59	2,211	3.14
Saskatchewan and Manitoba	123	1.47	73	0.89	-	-
British Columbia	3,742	3.95	1,932	4.36	1,573	2.46
Total production and average sales price ⁽¹⁾	7,027	4.59	5,718	5.11	3,784	2.86

(1) Excludes any hedging gains or losses.

Alberta Natural Gas Prices

	2001	2000	1999
NYMEX (US \$/mmbtu at Henry Hub Louisiana)	4.27	3.89	2.28
Less: AECO basis differential to Henry Hub (US \$/mmbtu)	(0.18)	(0.52)	(0.32)
	4.09	3.37	1.96
Average exchange rate	1.5489	1.4854	1.4857
Alberta price (Cdn \$/mcf @ AECO/NIT)	6.34	5.01	2.91
Less: TCPL Alberta system charges	(0.25)	(0.27)	(0.25)
Variance: Progress pool price vs spot	(0.62)	0.85	0.48
Progress average Alberta plantgate price (Cdn \$/mcf)	5.47	5.59	3.14

British Columbia Natural Gas Prices

	2001	2000	1999
NYMEX (US \$/mmbtu at Henry Hub Louisiana)	4.27	3.89	2.28
Less: Station #2 basis differential to Henry Hub (US \$/mmbtu)	(0.77)	(0.13)	(0.37)
	3.50	3.76	1.91
Average exchange rate	1.5489	1.4854	1.4857
British Columbia price (Cdn \$/mcf @ Station #2)	5.42	5.58	2.84
Less: WEI transportation, processing & gathering charge*	(0.95)	(0.90)	(0.90)
Variance: Progress pool price vs spot	(0.52)	(0.32)	0.52
Progress average British Columbia field price (Cdn \$/mcf)	3.95	4.36	2.46

* British Columbia has an infrastructure built by Westcoast Energy Inc. ("WEI") that enables gas producers in that province to avoid facility construction in exchange for regulated gathering, processing and transmission fees.

RISK MANAGEMENT

During 2001 the Company entered into a financial transaction whereby it bought a put option on 1,300 barrels per day of crude at WTI \$US 20.00 per barrel covering the period January 1 to March 31, 2002 and sold a call option at WTI \$US22.00 per barrel on 1,300 barrels of crude oil production covering the same period January 1, 2002 to March 31, 2002. The cost of the put was \$US 1.02 per barrel and the proceeds on the sale of the call was \$0.77 per barrel.

Progress also has financial instruments in place for 2002 to fix the price on approximately 1,000 barrels of crude oil production from April 1, 2002 to September 30, 2002. For this period, average forward rate transactions have been used to fix 500 barrels of crude oil per day at WTI \$US20.00 per barrel and costless collars have been used to fix approximately 500 barrels of crude oil per day with a floor of WTI \$US18.00 per barrel and a cap of WTI \$US 22.02 per barrel.

The Company has fixed the price on 4,000 GJ per day of its 2002 natural gas production from January 1 to October 31, 2002. A combination of costless collars and the purchase of puts and sale of calls protect a natural gas price of between \$Cdn. 3.00 per GJ and \$Cdn. 4.50 per GJ.

For detailed disclosure of Progress' financial transactions refer to Note 7 in the Financial Statements.

REVENUE

Revenues from crude oil, liquids and natural gas sales increased by 12 percent to \$33.2 million in 2001 from \$29.6 million in 2000. This increase was the result of a 34 percent growth in crude oil, liquids and natural gas production (2001 - 3,020 boe/d, 2000 - 2,256 boe/d), partially offset by a 16 percent decrease in commodity prices (2001 - \$30.12 per boe, 2000 - \$35.84 per boe).

(\$ thousands)	2001	2000	1999
Crude oil and liquids	21,473	19,292	7,146
Natural gas	11,729	10,300	4,014
	33,202	29,593	11,160
Average price (\$/boe)	30.12	35.84	21.32

ROYALTIES

Royalties decreased 10 percent to \$6.2 million in 2001 from \$6.9 million in 2000. While 2001 production increased, commodity prices decreased which affected the price-sensitive Crown royalty rates. The Company was also eligible to claim ARTC for the first time in 2001 as a result of the Company becoming unassociated, for tax purposes, with a former major shareholder. Progress continued to benefit from certain Crown royalty and mineral tax reduction programs in both Saskatchewan and Manitoba, and all of the Company's Alberta oil production qualifies for third tier Crown royalty rates.

(\$ thousands)	2001	2000	1999
Crude oil and liquids	3,415	3,883	1,365
Natural gas	2,768	2,968	1,149
	6,183	6,851	2,514
Average cost (\$/boe)	5.61	8.30	4.80
Percentage of oil, liquids and gas revenues (%)	19	23	23

OPERATING EXPENSES

Operating expenses increased 22 percent to \$5.1 million in 2001 from \$4.2 million in 2000. This increase can be attributed to higher production rates achieved by the Company during the year. Operating costs per boe decreased 9 percent (2001 - \$4.61/boe, 2000 - \$5.05/boe) due to the higher production volumes and a reduction in third party facility fees paid throughout the year. Third party facility fees were substantially reduced on natural gas as the result of the acquisition of the Milo dehydration and water disposal facilities.

(\$ thousands)	2001	2000	1999
British Columbia	138	189	158
Alberta	1,878	1,567	900
Saskatchewan/Manitoba	3,068	2,414	1,104
Operating costs, total	5,084	4,170	2,162
Average cost (\$/boe)	4.61	5.05	4.13
Percentage of oil, liquids and gas revenues	15%	14%	19%
Crude oil and liquids, total	4,202	3,113	1,700
Per unit \$/bbl	6.23	6.53	5.80
Natural gas, total	882	1,057	462
Per unit \$/mcf	0.34	0.51	0.33

GENERAL AND ADMINISTRATIVE EXPENSES

Gross general and administrative expenses increased 36 percent in 2001 to \$3.1 million from \$2.2 million in 2000. This resulted mainly from the increase in full-time and contract staff required as a result of the increasing size of the Company's operations. The Company also incurred certain one-time charges related to the re-capitalization of the Company in the fourth quarter of 2001.

Net general and administrative costs increased 58 percent to \$1.0 million in 2001 from \$0.7 million in 2000. On a boe basis, net general and administrative costs increased 19 percent to \$0.95 for the year from \$0.80 in 2000. Progress continues to have significant operator recoveries due to the high percentage of properties operated by the Company. For accounting purposes, Progress capitalizes general and administrative expenses associated with Company's exploration and development activities as these expenses are associated with adding reserves versus the cost of producing reserves.

(\$ thousands)	2001	2000	1999
Gross general and administrative	3,063	2,245	1,426
Operator recoveries	(1,369)	(1,019)	(488)
Capitalized expenses	(648)	(562)	(394)
Net general and administrative	1,046	664	544
Net general and administrative (\$/boe)	0.95	0.80	1.04

Full Time Employees and Full Time Consultants (at year end)

Head Office	17	15	11
Field	1	1	1
	18	16	12

FINANCING CHARGES

Bank debt increased \$1.6 million in 2001 to \$18.0 million and the Company's capital program exceeded cash in-flows during the year. Financing charges increased 32 percent to \$1.3 million in 2001 from \$0.9 million in 2000. This reflects the increase in average debt levels during the year (2001 - \$23.6 million, 2000 - \$14.3 million), however the increase in average debt levels was partially offset by declining interest rates during 2001.

(\$ thousands)	2001	2000	1999
Interest income	-	-	(2)
Financing charges	1,253	946	341
Net financing charges	1,253	946	339
Net interest expense (\$/boe)	1.14	1.15	0.65

DEPLETION AND DEPRECIATION AND SITE RESTORATION AND ABANDONMENTS

During the year 2001, depletion and depreciation of capital assets and the provision for site restoration and abandonments increased 69 percent to \$10.0 million from \$5.9 million in 2000. This increase was the result of increased production volumes and higher finding and development costs. At December 31, 2001 the Company estimated that its future site restoration costs were approximately \$6.7 million (2000 - \$5.3 million), which contributed to the increase in the provision for site restoration.

(\$ thousands)	2001	2000	1999
Depletion	9,078	5,350	3,107
Depreciation	52	50	38
Total depletion and depreciation	9,130	5,400	3,145
Provision for site restoration	845	513	266
	9,975	5,913	3,411
Depletion and depreciation (\$/boe)	9.05	7.16	6.52
Depletion and depreciation rate (%)	13.4	11.2	10.1

(1) The Depletion Rate presented above converts reserves and production to equivalent units of oil based on relative energy content consistent with the Company's accounting policy.

CEILING TEST

In accordance with the Canadian Institute of Chartered Accountants' full cost accounting guidelines, Progress performs an annual "ceiling test" calculation using year-end prices. The Company also performs quarterly "ceiling test" calculations using pricing received for product sales during the last month of each quarter. No write down was required for the year ended December 31, 2001 based on year end commodity prices of \$22.94 per bbl for crude oil and \$2.99 per mcf for natural gas. Based on commodity prices of \$38.71 per bbl for oil and \$12.73 per mcf for natural gas, no write down was required in 2000.

INCOME AND CAPITAL TAXES

Income taxes (future and current) decreased 24 percent in 2001 to \$3.5 million from \$4.6 million in 2000. Progress' effective income tax rate also decreased to 36.5 percent in 2001 from 42.0 percent in 2000. Reduced pre-tax income that resulted from lower commodity prices was the main reason for the decrease in income taxes. The Company recorded current taxes of \$1.2 million during 2001 compared to \$1.8 million for 2000.

Capital taxes decreased marginally in 2001 as compared to 2000. The resource surcharge portion of the Saskatchewan capital tax decreased in 2001 as a result of declining commodity prices. This decrease was partially offset by an increase in federal and provincial capital taxes, which are based upon year-end equity and debt levels. The capital taxes increased proportionally with the growth in the balance sheet.

(\$ thousands)	2001	2000	1999
Future income taxes	2,286	2,821	884
Current income taxes	1,238	1,824	-
Total income taxes	3,524	4,645	884
Capital taxes	482	534	234
	4,006	5,179	1,118
Effective income tax rate (%)	36.5	42.0	40.4

The Company has approximately \$43.0 million in tax pools to shelter taxable income in future years. The tax pools are as follows:

(\$ thousands)	
Canadian Development Expense	10,500
Canadian Oil and Gas Property Expense	19,000
Undepreciated Capital Cost	13,000
Other	500
	43,000

NET EARNINGS

Net earnings remained relatively unchanged decreasing four percent to \$5.7 million in 2001 from \$5.9 million in 2000. Despite higher production volumes during the year, lower commodity prices and higher depletion combined to keep earnings at 2000 levels. Net earnings per boe decreased to \$5.13 in 2001 from \$7.10 in 2000, while cash flow per boe decreased to \$16.25 from \$17.68.

<i>Net Earnings (\$/boe)</i>	2001	2000	1999
Oil, liquids and natural gas revenues	30.12	35.84	21.32
Royalties	(5.61)	(8.30)	(4.80)
Operating expenses	(4.61)	(5.05)	(4.13)
Net operating income	19.90	22.49	12.39
General and administrative	(0.95)	(0.80)	(1.04)
Interest expense <i>(net)</i>	(1.14)	(1.15)	(0.65)
Current income taxes	(1.12)	(2.21)	-
Capital taxes	(0.44)	(0.65)	(0.44)
Cash flow from operations	16.25	17.68	10.26
Depletion and depreciation	(9.05)	(7.16)	(6.52)
Future taxes	(2.07)	(3.42)	(1.69)
Net earnings	5.13	7.10	2.05

COMMON SHARE INFORMATION

Common shares issued during 2001 were;

- (1) The exercise of 397,500 employee stock options. Stock options granted to employees during the year amounted to 1,107,750 shares,
- (2) The issue of 3,018,600 Common Shares on conversion of the Class B Shares during the second quarter of 2001,
- (3) The issue of 700,000 flow through common share units at a price of \$2.65 per unit and 553,498 common share units at a price of \$2.43 per unit pursuant to a private placement to the new management team. These common and flow-through units each consist of one common share and one common share warrant. Each warrant is exercisable for one common share at \$2.65 per share after one year and for a period of three years after the date of issue.
- (4) The issue of 3,000,000 Common Shares at \$3.55 per share pursuant to private placement in a bought deal with a number of underwriters announced on November 11, 2001.

Also during 2001, pursuant to a Normal Course Issuer Bid, the Company acquired 610,900 common shares. At December 31, 2001, the Company has a total of 2,066,500 options outstanding with a weighted average exercise price of \$2.12 per share and 1,253,498 warrants outstanding.

<i>(thousands)</i>	2001	2000	1999
Outstanding shares			
Weighted average outstanding shares			
- Basic	18,203	19,317	18,414
- Diluted <i>(Treasury Stock Method)</i>	18,980	20,570	19,107
Outstanding shares December 31 ⁽¹⁾			
- Common	22,087	15,029	14,922
- Class B	-	1,170	1,171
- Basic	22,087	18,047	17,943
- Diluted	25,407	19,404	19,289



(\$ thousands except per share amounts)	2001	2000	1999
Per Share Information			
Net earnings	5,655	5,870	1,072
Net earnings per share			
- Basic	0.31	0.30	0.06
- Diluted (Treasury Stock Method)	0.30	0.29	0.06
Cash flow from operations	17,916	14,604	5,367
Cash flow from operations per share			
- Basic	0.98	0.76	0.29
- Diluted (Treasury Stock Method)	0.94	0.71	0.28
Total asset book value	81,935	65,325	41,871
Total asset book value per share ⁽²⁾			
- Basic	3.71	3.62	2.33
- Diluted	3.22	3.37	2.17
Book value (Shareholders' Equity)	40,964	23,800	18,913
Book value per share ⁽²⁾			
- Basic	1.85	1.32	1.05
- Diluted	1.61	1.23	0.98
Production (mboe)	1,102	826	523
Production per 100 shares ⁽²⁾			
- Basic	5.0	4.6	2.9
- Diluted	4.3	4.3	2.7
Proven plus probable reserves (mboe)	9,365	10,162	9,086
Reserves per 100 Shares (mboe) ⁽²⁾			
- Basic	42.4	56.3	50.6
- Diluted	36.9	52.4	47.1

(1) For purposes of calculating basic and diluted shares at year-end for 1999 and 2000, the Class B shares were converted to common shares using the July 6, 2001 conversion rate of 2.58 common shares for each Class B share.

(2) Calculated using outstanding shares at year-end.

NET ASSET VALUE

Progress's net asset value per share at December 31, 2001 was \$3.43 per basic share (2000 - \$5.01 per share) and \$3.28 per diluted share (2000 - \$4.78 per share). The difference in net asset value per share is attributable to lower commodity price forecasts, lower reserves and the larger number of shares outstanding at year end.

(\$ thousands)	2001	2000	1999
Reserve value (12% discount before tax) ⁽¹⁾	83,149	100,600	58,400
Undeveloped acreage	7,500	9,912	3,865
Seismic and other assets	2,500	2,000	2,000
Working capital surplus (Deficiency)	562	(5,517)	(2,951)
Bank debt	(17,976)	(16,409)	(9,418)
Basic	75,735	90,586	51,896
Exercise of stock options and warrants	7,712	2,102	1,273
Diluted	83,447	92,688	53,169
Net asset value per common share (\$)			
- Basic	3.43	5.01	2.89
- Diluted ⁽²⁾	3.28	4.78	2.76

(1) Reserve values are for proven plus probable reserves. Reserve values are based on before tax estimates of future cash flows as evaluated by our independent reserve engineers, for 2001 by Gilbert Laustsen Jung Associates Ltd. and for 2000 and 1999 by Paddock Lindstrom and Associated Ltd.

(2) For 2000 and 1999 the basic and diluted calculation includes the common shares plus 1,170,000 (1999 - 1,170,900) Class B Shares converted to Common Shares assuming the actual conversion rate utilized upon conversion on July 6, 2001. The conversion rate was 2.58 Common Shares for each Class B Share.

CAPITAL RESOURCES AND INVESTMENTS

Capital Expenditures

(\$ thousands)	2001	2000	1999
Land acquisitions and retention	1,008	1,020	440
Geological and geophysical	1,323	1,322	791
Drilling and completions	11,902	12,606	6,989
Property acquisitions/dispositions	6,945	3,552	4,822
Equipping and facilities	4,216	4,917	5,650
Other	25	77	110
Total capital expenditures	25,419	23,494	18,802

Finding & Development Costs

During 2002 prior year reserve additions were adjusted downward resulting in lower year over year total proven reserves. Net proven reserve additions (after prior year reserve revisions) were 0.729 million boe on a proven basis and 0.305 million boe on a proven plus probable basis during 2001. Reserve additions before revisions of prior year were 1.878 million boe on a proven basis and 1,987 million boe on a proven plus probable basis and resulted in finding and development costs of \$13.54 per proven boe and \$12.79 per boe on a proven plus probable basis. The three year rolling average finding and development costs after adjustment are \$12.02 per boe on a proven basis and \$10.60 per boe on a proven plus probable basis.

(\$ thousands)	Cumulative 1999 - 2001	2001	2000	1999
Total capital expenditures	67,715	25,419	23,494	18,802
Proven				
Net reserve additions before revisions (mboe) ⁽²⁾	6,632.5	1,877.5	2,520.3	2,234.7
Finding & development costs (\$/boe)	10.21	13.54	9.32	8.41
Proven plus probable				
Net reserve additions before revisions (mboe) ⁽²⁾	8,108.5	1,987.8	2,294.5	3,826.2
Finding & development costs (\$/boe)	8.35	12.79	10.24	4.91
Proven				
Net reserve additions after revisions (mboe) ⁽²⁾	5,577.4	728.6	2,122.7	2,726.1
Finding & development costs (\$/boe)	12.14	34.89	11.07	6.90
Proven plus probable				
Net reserve additions after revisions (mboe) ⁽²⁾	6,388.2	305.5	1,896.9	4,185.8
Finding & development costs (\$/boe)	10.60	83.20	12.39	4.49

(1) Refer to capital expenditures for details

(2) Refer to reserve reconciliation table for details

Drilling Results

	2001		2000		1999	
	Gross	Net	Gross	Net	Gross	Net
Crude oil	13	9.3	21	10.3	4	2.2
Natural gas	6	1.4	5	2.7	9	4.6
Dry and abandoned	4	1.8	7	3.6	3	2.3
Total	23	12.5	33	16.6	16	9.1
Success rate (%)	83	86	79	78	81	75

LAND

Undeveloped Land

Progress's net undeveloped land decreased by 96,407 net acres during 2001 as a result of land expiries during the year in Manitoba and Saskatchewan. The majority of these expiries occurred on the original lands received from a former major shareholder in 1997 and were deemed to not be prospective. Alberta saw a net increase of 14.5 percent in net undeveloped land during 2001. During 2002 approximately 35,000 net acres are scheduled to expire in Saskatchewan and Manitoba. The Company is planning on building its undeveloped land position and increasing its net working interest during 2002 through selective large regional farm-ins and land acquisitions in existing core and new focus areas.

(acres)	2001		2000	
	Gross	Net	Gross	Net
Saskatchewan	30,040	24,739	50,61	39,782
Alberta	86,415	47,635	86,416	41,621
British Columbia	7,244	1,179	8,086	1,409
Manitoba	24,895	23,812	112,320	110,960
Total	148,594	97,365	257,438	193,772

RESERVES

Independent Reserve Evaluation

The crude oil, natural gas liquids and natural gas reserves of the Company have been reported as at December 31, 2001 by Gilbert Laustsen Jung Associates Ltd. ("GLJ") in a report dated February 28, 2002. GLJ was engaged to conduct an independent review of the Company's reserves for 2001. Prior to this year Paddock Lindstrom & Associates Ltd. performed the independent review.

The properties were evaluated by GLJ on a reserve and economic forecast basis in accordance with the National Policy 2-B (Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators) definitions. The evaluators are qualified and experienced registered professional engineers and geologists and are independent of Progress. Personal field inspection of the properties was not made by GLJ as such inspections are not considered necessary in view of the information available from the files of the Company and the appropriate provincial regulatory authorities.

GLJ relies on data generally available through public sources supplemented with data provided by Progress, including but not limited to the following: land interest descriptions on a lease basis, pertinent well data (such as well logs, drill stem tests, workover details, pressure surveys, production tests), geological mapping, petrophysical studies, accounting property statements, marketing arrangements, and operating and capital budget information.

Basic well data provided by Progress for the properties were reviewed by GLJ to assist in the assignment of proven and probable reserves. GLJ has no responsibility to update its report for events and circumstances occurring subsequent to the date of its report.

Extent of Review

GLJ evaluated all of the Progress properties. Approximately 75 percent of Progress' corporate reserves and values were evaluated in full geological and engineering detail. The properties chosen for detailed evaluation were those with significant reserves and values or those with current development activities. The remaining properties had lesser reserves and little or no active development.

Review of Reserves by the Board of Directors

The Board of Directors has conducted certain due diligence in conjunction with its review of the Company's reserves for the year ended December 31, 2001. The Board of Directors met separately with both GLJ and the responsible Progress engineering staff. The Board of Directors and management of Progress recognize that ultimate responsibility for the reserves of the Company rests with management.

The practices followed by the Board of Directors intended to preserve the independence of the consulting engineers included the following:

- (i) review management's recommendations for the appointment of the independent engineer; and
- (ii) review the terms of the independent engineers' engagement and the appropriateness and reasonableness of the proposed fees.

The practices followed by the Board of Directors related to the independent reserve report included the following:

- (i) review the scope and methodology of the independent engineers' evaluation;
- (ii) review any significant new discoveries, additions, revisions and acquisitions;
- (iii) review assumptions and consistency with prior years;
- (iv) review any problems experienced by the independent engineer in preparing the reserve report, including any restrictions imposed by management or significant issues on which there was a disagreement with management; and
- (v) review all public disclosure documents containing reserve information prior to its release, including, the annual report, the annual information form and management's discussion and analysis.



Summary of 2001 Reserves

At year end 2001, Progress's proven plus probable crude oil and natural gas liquids reserves decreased nine percent to 5.2 million barrels from 5.7 million barrels in 2000. Proven plus probable natural gas reserves decreased seven percent to 25.2 billion cubic feet from 27.0 billion cubic feet in 2000.

Proven producing reserves for crude oil and NGL are 94 percent (89 percent in 2000) of total proven reserves and 72 percent (70 percent in 2000) of proven plus probable reserves. Probable oil and NGL reserves account for 23 percent (22 percent in 2000) of proven plus probable oil and NGL reserves.

For natural gas, proven producing reserves are 90 percent (77 percent in 2000) of total proven reserves and 77 percent of proven plus probable reserves (60 percent in 2000). Probable natural gas reserves account for 14 percent (22 percent in 2000) of proven plus probable natural gas reserves.

Reserve Reconciliation – Oil & NGL (mbbls)

	Proven Producing	Proven Non- Producing	Total Proven	Probable	Proven Plus Probable
December 31, 1999	n/a	n/a	3081.1	996.7	4077.9
Additions	n/a	n/a	1,348.0	261.0	1,609.0
Revisions	n/a	n/a	471.4	(13.0)	458.4
Reserve additions	n/a	n/a	1,819.4	248.1	2,067.4
Production	n/a	n/a	(476.0)	-	(476.0)
December 31, 2000	3,944.5	480.0	4,424.5	1,244.8	5,669.3
Extensions and discoveries	603.8	(46.1)	557.7	(130.7)	427.0
Technical revisions	(578.8)	(203.1)	(781.9)	(23.9)	(805.8)
Acquisitions	432.7	5.0	437.7	126.8	564.5
Dispositions	(4.9)	-	(4.9)	(2.5)	(7.4)
Reserve additions	452.8	(244.2)	208.6	(30.3)	178.3
Production	(675.0)	-	(675.0)	-	(675.0)
December 31, 2001	3,722.3	235.9	3,958.1	1,214.5	5,172.6

Reserve Reconciliation – Natural Gas (mmcf)

	Proven Producing	Proven Non- Producing	Total Proven	Probable	Proven Plus Probable
December 31, 1999	n/a	n/a	19,232	10,816	30,048
Additions	n/a	n/a	7,034	(2,921)	4,113
Revisions	n/a	n/a	(3,170)	(1,966)	(5,136)
Reserve additions	n/a	n/a	3,864	(4,887)	(1,023)
Production	n/a	n/a	(2,072)	-	(2,072)
December 31, 2000	16,096	4,929	21,025	5,929	26,954
Extensions and discoveries	3,064	176	3,240	665	3,905
Technical revisions	1,529	(3,730)	(2,201)	(3,057)	(5,258)
Acquisitions	1,339	743	2,082	35	2,117
Dispositions	-	-	-	-	-
Reserve additions	5,932	(2,811)	3,121	(2,357)	764
Production	(2,565)	-	(2,565)	-	(2,565)
December 31, 2001	19,463	2,118	21,581	3,572	25,153

Extensions and Discoveries

Development drilling was done in the Two Creek and Milo fields to increase recovery factors and to shift probable reserves to proven producing. There were also drilling additions in the Saskatchewan oil properties, Clarilaw and Bellegarde.

Technical Revisions

Revisions to prior periods were primarily the result of the selection of more conservative recovery factors on the Company's major properties, specifically in estimated gas cap and solution gas volumes at Two Creek, as well as lower recovery factors in various other properties.

Net Acquisitions and Dispositions

During 2002 the Company increased its working interest in its largest property, Two Creek from 80 to 100 percent through the acquisition of its partner's interest. Partner interests were also acquired at Steelman Unit #7 in Saskatchewan, increasing the Company's working interest in this operated oil property from 46 percent to 91 percent.

Reserve Life Index

The Company's reserve life index, based on the average 2001 production rate, is 5.9 years for proven and 7.7 years for proven plus probable crude oil and natural gas liquids reserves and 8.4 years for proven and 9.8 years for proven plus probable natural gas reserves.

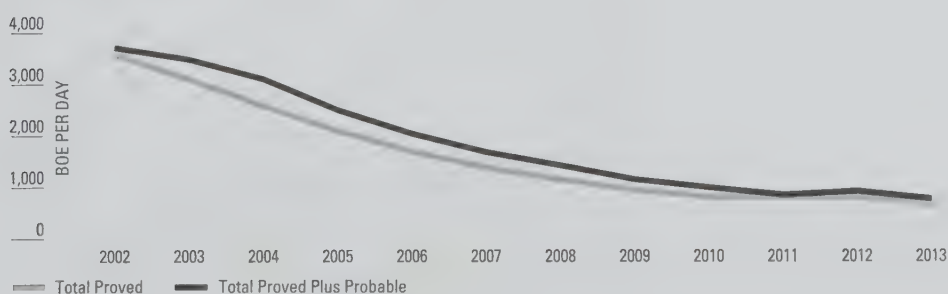
	2001	2000	1999
<i>Crude Oil & NGL</i>			
Production (mbbls)	675.0	477.1	293.1
Proven reserves (mbbls)	3,958	4,425	3,081
Proven reserve life index (years)	5.86	9.28	10.51
Proven plus probable reserves (mbbls)	5,173	5,669	4,078
Proven plus probable reserve life index (years)	7.66	11.88	13.91
<i>Natural Gas</i>			
Production (mmcf)	2,564.7	2,092.7	1,381.0
Proven reserves (mmcf)	21,581	21,025	19,232
Proven reserve life index (years)	8.42	10.05	13.93
Proven plus probable reserves (mmcf)	25,153	26,954	30,048
Proven plus probable reserve life index (years)	9.81	12.88	21.75

Production Profile

Presented below is the GLJ reserve production profile for the Company.

The GLJ production profile does not account for the Company's planned exploratory activities for 2002 and beyond.

Production Profile



Present Value of Reserves

Revenue projections presented are based in part on forecasts of market prices, currency exchange rates, inflation, market demand and government policy which are subject to many uncertainties and may in future differ materially from forecasts utilized in these calculations. They do not deduct future general and administrative expenses or well and facility abandonment costs and assume the continuance of current laws and regulations. The discounted values presented do not necessarily represent fair market value of the reserves.

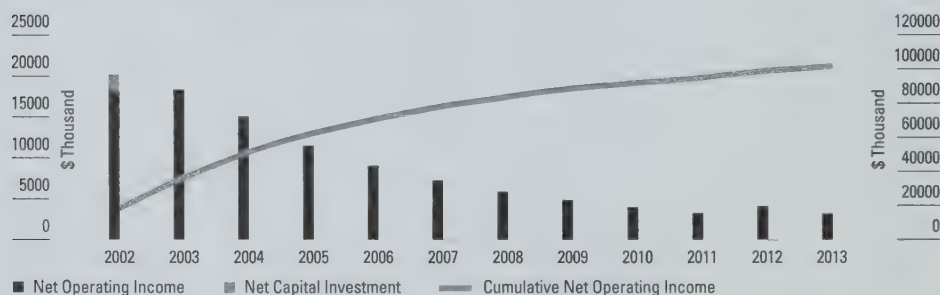
(\$ millions, before income taxes)

	2001				2000				1999			
Discount (%)	0	10	12	15	0	10	12	15	0	10	12	15
Proven												
- Producing	102.5	69.9	65.9	60.7	116.4	75.8	71.3	65.6	38.3	26.4	25.0	23.2
- Non producing	8.0	5.6	5.2	4.8	25.1	10.8	9.7	8.5	37.5	20.4	18.7	16.6
Total proven	110.5	75.5	71.1	65.5	141.5	86.6	81.0	74.1	75.8	46.8	43.7	39.8
Probable	27.2	13.3	12.0	10.5	36.3	21.2	19.6	17.6	29.3	16.1	14.7	13.0
Proven plus Probable	137.7	88.8	83.1	76.0	177.8	107.8	100.6	91.7	105.1	62.9	58.4	52.8

Yearly and Cumulative Net Operating Income

Total Proven - Undiscounted

Yearly and Cumulative Net Operating Income



* Net of Capital investment required to produce proven non producing reserves

Net Future Capital Expenditures

The reserve report incorporates future capital expenditure requirements to bring proven non-producing and probable reserves on production as well as to maintain proven producing reserves.

Undiscounted (\$ thousands)	2001	2000	1999
Proven - producing	212	374	0
Proven - Non producing	2,226	1,364	1,432
Proven	2,438	1,738	1,432
Probable	1,586	4,637	4,182
Proven plus probable	4,024	6,375	5,614

Pricing Assumptions

The pricing forecast presented below, has been prepared by Gilbert Laustsen Jung Associates Ltd. as at January 1, 2002. The pricing presented for 2000 and 1999 were prepared by Paddock Lindstrom Associates Ltd. They have been utilized in determining the reserves and cash flow forecasts in this section.

Year	Crude Oil ⁽¹⁾ (US \$/bbl)			Crude Oil ⁽²⁾ (Cdn \$/bbl)			Natural Gas ⁽³⁾ (Cdn \$/mbtu)		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
1998	14.43			20.09			2.02		
1999	19.24			27.35			2.91		
2000	30.20		26.00	44.33		36.77	5.01		3.52
2001	25.90	27.00	21.00	39.13	39.91	29.00	6.34	7.35	3.35
2002	20.00	24.00	20.50	30.75	34.80	27.85	4.30	5.36	3.25
2003	21.00	23.00	20.91	31.25	32.78	28.00	4.65	4.89	3.15
2004	21.00	23.00	21.33	30.50	32.27	28.56	4.70	4.44	3.05
2005	21.00	23.46	21.75	29.50	32.43	29.13	4.70	4.45	3.11
2006	21.25	23.93	22.19	29.50	33.08	29.72	4.70	4.54	3.17
2007	21.75	24.41	22.63	30.00	33.74	30.31	4.70	4.63	3.23
2008	22.00	24.90	23.09	30.50	34.42	30.92	4.70	4.72	3.30
2009	22.25	25.39	23.55	31.00	35.11	31.53	4.75	4.82	3.36
2010	22.50	25.90	24.02	31.50	35.81	32.16	4.80	4.91	3.43
2011	23.00	26.42	24.50	32.00	36.52	32.81	4.90	5.01	3.50
2012	23.25	26.95	24.99	32.50	37.25	33.46	4.95	5.11	3.57
Thereafter	+1.5%/yr	+2.0%/yr	+2.0%/yr	+1.5%/yr	+2.0%/yr	+2.0%/yr	+1.5%/yr	+2.0%/yr	+2.0%/yr

(1) West Texas Intermediate at Cushing, Oklahoma

(2) Light Sweet at Edmonton, Alberta

(3) AECO-C Spot

Figures represent actual prices

2001 Year End Reserves by Province

(at December 31, 2001)

	Oil & NGL (mbbls)			Natural Gas (bcf)		
	Proven	Probable	Proven Plus Producing	Proven	Probable	Proven Plus Probable
Alberta	1,545	568	2,113	9.8	2.2	12.0
British Columbia	-	-	-	11.4	1.4	12.8
Saskatchewan	1,780	402	2,182	0.4	-	0.4
Manitoba	633	244	877	-	-	-
	3,958	1,214	5,172	21.6	3.6	25.2

Additional Disclosure on Reserves

For more disclosure on the Company's reserves see Summary of Estimated Reserves in the Annual Information Form.



CAPITALIZATION & FINANCIAL RESOURCES

The Company's total capitalization increased 49 percent to \$119.5 million during 2001 with a market value of common shares representing 73 percent of total capitalization. Debt and working capital represented 15 percent of total capitalization, while site restoration and future income taxes accounted for 12 percent. The market value of the Company's common shares increased to \$87.2 million as a result of increased outstanding shares and an increase in the Company's share price.

Total Market Capitalization

(\$ thousand except per share amounts)	2001	%	2000	%	1999	%
Common share outstanding	22,087		15,029		14,922	
Share price ⁽¹⁾	3.95		2.75		2.50	
Market value of common shares	87,245	73	41,330	52	37,305	61
Class B share outstanding (thousands)			1,170		1,171	
Share price ⁽²⁾			4.80		3.25	
Market value of Class B share ⁽²⁾			5,616	7	3,805	6
Total market capitalization	87,245	73	46,946	59	41,110	67
Working capital deficiency (Surplus) ^	(562)		5,517		2,951	
Bank debt	17,976		16,409		9,418	
Total debt	17,414	15	21,926	27	12,369	20
Site restoration and reclamation	1,682	1	847	1	334	1
Future incomes taxes	13,175	11	10,373	13	7,536	12
Total capitalization	119,516	100	80,092	100	61,349	100
Total debt to total capitalization (%)	15		27		20	

(1) Represents the last price of the year that the Common Shares traded on the CDNX.

(2) Represents the last price of the year that the Class B shares traded on the CDNX. During 2001 the Class B shares were converted to Common shares.

At December 31, 2001 the Company had outstanding on its credit facility approximately \$18 million and had positive working capital of \$0.56 million, totaling \$17.4 of total net debt. This total debt level represents approximately 1.00 times 2001 cash flow from operations. The Company has a \$35 million credit facility and is well positioned to execute its plans for 2002.



Key Debt Ratios

(\$ thousands)	2001	2000	1999
Working capital deficiency (<i>Surplus</i>)	(562)	5,517	2,951
Bank debt	17,976	16,409	9,418
Total debt	17,414	21,926	12,369
Debt to cash flow ratio			
Cash flow from operations	17,916	14,604	5,367
Total debt	17,414	21,926	12,369
Years cash flow to repay total debt - trailing	0.97	1.50	2.30
Asset coverage ratio			
Total assets	81,935	65,325	41,871
Total debt	17,414	21,926	12,369
Asset coverage	4.71	2.98	3.39
Total debt/equity ratio			
Total debt	17,414	21,926	12,369
Shareholders' equity	40,964	23,800	18,613
Total debt/equity	0.43	0.92	0.66

EMERGING ACCOUNTING ISSUES

The Company has reviewed the latest emerging accounting issues and determined that the only relevant issue that could impact the Company in 2002 is the Emerging Issues Committee ("EIC") position on Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced (EIC-122) ("the Abstract"). The general principal under the Abstract is that non-current classification of debt in a debtor's balance sheet should be based on facts existing at the balance sheet date rather than on expectations regarding future refinancing or renegotiations. If the creditor has at that date, or will have within one year from that date, the unilateral right to demand immediate payment of any portion or all of the debt under any provision of the debt agreement, the obligation should be classified as a current liability. It is recommended that the Abstract be applied prospectively and should be applied to financial statements for periods beginning on or after January 1, 2002. The Company's credit facility allows the bank debt to be classified as long term and hence the financial statements will not be impacted by the prospective application of this accounting treatment.

OUTLOOK AND PROSPECTS FOR FUTURE GROWTH

Progress remains confident of our ability to achieve success and future growth. The Company believes it can deliver base growth of 15 to 20 percent during 2002 from its internal exploration and development program inventory. This growth will be derived from a \$12.3 million budgeted capital program approved by the Board of Directors. The 2002 internal program will consist of development activities on existing properties, creation of new exploratory prospects and the building of an inventory of exploitation opportunities on controlled lands.

The Company plans on capital expenditures beyond the budgeted levels focused on –

- Consolidating and on-trend acquisitions
- Opportunity driven new core acquisitions
- Significant exploratory partnerships that would be regionally complimentary to the Company's focused areas.

These expenditures are opportunity driven and will occur only if the Company is able to identify and execute on transactions that it deems to be economic and strategic.

2002 Capital Budget

(\$ million)

Land and seismic	2.5
Drilling and completions	8.4
Equipment	1.4
Acquisitions and related exploitation	Yes – Opportunity Driven
Total	12.3

2002 Sensitivities

(\$ thousands)

	Cash Flow From Operations	Earnings
Impact on 2002:		
Change in West Texas Intermediate oil price by US\$1.00 per barrel	1,000	625
Change in average field price of natural gas by Cdn\$0.10 per mcf	230	145
Change in value of Cdn dollar compared to US dollar by Cdn\$0.01	150	90
Change of 1% in prime interest rates	220	140

* Sensitivity calculations are based on the 2002 budget and assume a US dollar exchange rate of \$1.5748.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. The following reviews the general and specific risks and includes Progress' approach to managing these risks.

Commodity Risks

Finding

Oil and gas exploration requires manpower and capital to generate and test exploration concepts. The eventual testing of a concept will not necessarily result in the discovery of economic reserves. Progress attempts to minimize finding risk by ensuring that:

- The majority of prospects have multi-zone potential.
- Activity is focused in core regions where expertise and experience is greatest.
- Number of wells drilled is large enough to increase the probability of statistical success rates.
- Working interests are targeted at over 60 percent in new prospects.
- Geophysical techniques are utilized where appropriate.

Investment Risk Profile

The Company's investment selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery of reserves (exploration). This careful prospect selection process can yield consistent and efficient results. The Company will focus its activity in core areas, allowing it to leverage off its experience and knowledge in these areas. The Company attempts to limit investment risk by maintaining a broad range of investment choices and by continually investing a portion of its annual budget to prospect generation for future years. The Company uses farm-outs to minimize risk on plays it considers higher risk.

Production

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Progress minimizes this risk by generating exploration prospects internally, targeting high quality products and attempting to operate the associated project. Operational control allows the Company to control costs, timing, method and sales of production. Production risk is also minimized by concentrating exploration efforts in regions where facilities and infrastructure are Progress-owned, or the Company can control the future development of new facilities and infrastructure.

Reserve Estimates

Estimates of economically recoverable oil and natural gas reserves (including natural gas liquids) and the future net cash flows they generate are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

The Company's independent engineering firm, Gilbert Laustsen Jung Associates Ltd. ("GLJ"), uses a deterministic approach in the estimation of reserves. Reserves are assessed using a discrete value for each parameter in the calculation of reserves, such that the resultant reserve value is consistent with the certainty level associated with the reserve classification. Where deemed appropriate, risk modeling is utilized to determine reserve probability distributions. Regardless of which method is employed, the following definitions are followed by GLJ in their analysis:

- **Proven Reserves:** Those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions in the case of constant price and cost analyses and anticipated economic conditions in the case of escalated price and cost analyses, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

- **Probable Reserves:** Those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recovery under current technology and existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

Financial and Liquidity Risks

Progress relies on various sources of funding to support its growing capital expenditure program:

- Internally generated cash flow provides the minimum level of funding on which the Company's annual capital expenditures program is based.
- Debt may be utilized to expand capital programs when it is deemed appropriate.
- New equity, if available and if on favorable terms, and be utilized to expand exploration programs.

Cash flow is influenced by factors, which the Company cannot control, such as commodity prices, the US/Cdn exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, Progress would respond by increasing debt to within the Company's self-imposed debt guideline or reducing capital expenditures.

Environmental and Safety Risks

There are potential risks to the environment inherent in the business activities of the Company. The Board of Directors has reviewed and approved policies and procedures covering environmental risks, emergency response and employee safety. These policies and procedures are designed to protect and maintain the environment with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining modern facilities, complying with all provincial and federal environmental and safety regulations and maintaining adequate insurance.

The Company has estimated future site restoration and abandonment costs will total \$6.7 million and has recognized \$0.8 million through increased depletion in 2001. The Company reviews its site restoration and abandonment obligations annually and adjusts its provision based on current costs.

Inflation Risks

Inflation risks subject the Company to potential erosion of product netbacks. For example, increasing domestic prices for oil and natural gas production equipment and services can inflate the costs of operations.

Supply of Service and Production Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors and maintains an appropriate inventory of production equipment.

Risk Management

The objectives of Progress' Risk Management Policy is to secure the capital program and cover debt payments by ensuring that budgeted cash flow levels are attained through the minimization of exposure to commodity price, foreign exchange and interest rate volatility. The objectives are achieved through the use of financial instruments or through fixed price contracts for the delivery of physical volumes. The program is subject to certain targets and guidelines as approved by the Board of Directors from time to time. Effective controls and procedures are in place to ensure that the mandate is followed.

Marketing Risks

Demand for crude oil and natural gas produced by the Company exists within Canada and the US, however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Demand for natural gas liquids is dictated predominantly by demand for petrochemicals in North American and off-shore markets. Progress mitigates the risks as follows:

- Crude oil production is generally of a high quality and hence not subject to adverse quality differentials.
- Natural gas is connected to mature pipeline infrastructure that operates with minimal interruptions.
- Exploration efforts target high quality oil and liquid rich natural gas reserves.
- Exploration efforts are concentrated in core regions where marketing expertise levels are highest. Marketing synergies can be achieved with the existing production base.
- Sale arrangements vary in term and pricing structure to develop a portfolio to minimize risk of exposure to any one market.
- Financial instruments are used where appropriate to manage commodity price volatility.

Technology Risks

The Company relies on information technology to manage its day to day operations and perform reporting obligations including the preparation of financial statements, reporting to joint partners and various governments in relation to payment of royalties and taxes.

**MANAGEMENT'S
REPORT**

The accompanying financial statements of Progress Energy Ltd. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles and include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Progress Energy Ltd. maintains appropriate systems of internal accounting and administrative controls of high quality. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed entirely of outside directors, meets regularly with management, as well as the external auditors, to discuss auditing (external and joint venture), internal controls, accounting policy and financial reporting matters. The Committee reviews the financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.



David D. Johnson
President and CEO



Steven A. Allaire
Vice President Finance and CFO

Calgary, Canada
February 28, 2002

**AUDITORS'
REPORT**

To the Shareholders of Progress Energy Ltd.

We have audited the consolidated balance sheets of Progress Energy Ltd. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for each of the years in the three year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2001 in accordance with accounting principles generally accepted in Canada.

KPMG LLP.

Chartered Accountants
Calgary, Canada
February 28, 2002

As at December 31 (\$ thousands)

2001

2000

**CONSOLIDATED
BALANCE
SHEETS**

Assets

Current

Cash and short-term investments - 68

Accounts receivable 8,009 7,818

Other 691 493

8,700 8,379

Property, plant and equipment (Note 2) 73,235 56,946

81,935 65,325

Liabilities and Shareholders' Equity

Current

Accounts payable 8,138 11,820

Income and other taxes payable - 2,076

8,138 13,896

Bank debt (Note 3) 17,976 16,409

Site restoration and abandonment 1,682 847

Future income taxes (Note 5) 13,175 10,373

40,971 41,525

Shareholders' Equity

Share capital and warrants (Note 4) 29,608 17,156

Retained earnings 11,356 6,644

40,964 23,800

81,935 65,325

Commitments (Note 8)

See accompanying notes to the financial statements

Approved on behalf of the Board:



Director



Director

Year ended December 31 (\$ thousands except per share amounts)

2001

2000

1999

**CONSOLIDATED
STATEMENTS
OF EARNINGS
AND RETAINED
EARNINGS**

Revenues

Petroleum and natural gas	33,202	29,593	11,160
Royalties	(6,183)	(6,851)	(2,514)
Other	-	-	2
	27,019	22,742	8,648

Expenses

Operating	5,084	4,170	2,162
General and administrative	1,046	664	544
Financing charges	1,253	946	341
Depletion and depreciation	9,975	5,913	3,411
	17,358	11,693	6,458

Earnings before taxes

9,661	11,049	2,190
--------------	--------	-------

Taxes

Capital taxes	482	534	234
Current income taxes (Note 5)	1,238	1,824	-
Future income taxes (Note 5)	2,286	2,821	884
	4,006	5,179	1,118

Net earnings

5,655	5,870	1,072
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Retaining earnings, beginning of year

6,644	1,399	327
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Redemption of shares

(943)	(625)	-
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Retained earnings, end of year

11,356	6,644	1,399
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Net earnings per share (Note 4)

Basic	0.31	0.30	0.06
Diluted	0.30	0.29	0.06

See accompanying notes

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

Cash provided by (used in):

Operations

Net earnings	5,655	5,870	1,072
Depletion and depreciation	9,975	5,913	3,411
Future income taxes	2,286	2,821	884
Cash flow from operations	17,916	14,604	5,367
Changes in non-cash working capital	(6,147)	2,634	(1,723)
	11,769	17,238	3,644

Financing

Increase (decrease) in bank debt	1,567	6,991	9,418
Issue of shares	13,750	302	3,748
Redemption of shares	(1,725)	(969)	-
	13,592	6,324	13,166

Investing

Capital asset additions	(25,419)	(23,494)	(18,802)
Site restoration and abandonment	(10)	-	-
	(25,429)	(23,494)	(18,802)
Increase (decrease) in cash	(68)	68	(1,992)
Cash and short-term investments, beginning of year	68	-	1,992
Cash and short-term investments, end of year	-	68	-

Cash flow from operations per share

Basic	0.98	0.76	0.29
Diluted	0.94	0.71	0.28

See accompanying notes to the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS AND BASIS OF PRESENTATION

Progress Energy Ltd. (the “Company”) operates in the oil and gas industry in British Columbia, Alberta, Saskatchewan and Manitoba. The financial statements include the accounts of the Company and its subsidiaries and are stated in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and partnership.

CASH AND SHORT-TERM INVESTMENTS

Cash and short term investments consist of cash in the bank, less outstanding cheques and short-term deposits with a maturity of less than three months.

OIL AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations. All costs related to the acquisition of exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

Proceeds from the disposition of oil and gas properties are credited to the capitalized costs except for dispositions, which would significantly alter the rate of depletion and depreciation, in which case a gain or loss would be recorded.

DEPLETION AND DEPRECIATION

Capitalized costs in each cost center, together with estimated future capital costs associated with proven reserves, are depleted and depreciated using the unit-of-production method based on estimated gross proven reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content. Costs of significant unproved properties are excluded from the depletion calculation.

In applying the full cost method, the Company restricts the capitalized costs less accumulated depletion and depreciation, future income taxes and the accumulated provision for future site restoration costs to an amount equal to estimated future net revenues from proven reserves, based on year-end prices and costs, plus unproved properties. Estimated future capital costs, recurring general and administrative expenses, future financing costs, future site restoration costs, and income taxes are deducted in determining future net revenues. Any costs carried on the balance sheet in excess of the ceiling test limits are charged to current operations as additional depletion.

A provision for future site restoration costs is calculated using the unit of production method. Costs are estimated each year by management based upon current regulations and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual costs incurred are charged against the accumulated liability.

Office equipment is recorded at cost and is depreciated over the useful life of the assets on a declining balance basis at 20%.

JOINT OPERATIONS

Substantially all of the exploration and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. Most of the transactions are related to an underlying physical position or to future oil and natural gas production and this hedging relationship is or is expected to be effective. Derivative financial instruments not designated as hedges are recorded at fair value at inception and changes in the fair value are recognized in earnings.

Gains and losses on financial instruments designated as hedges are deferred and are recognized in the period and in the same financial category in which the revenues or expenses associated with the hedged transactions are recognized.

Premiums paid on the purchase of put options are deferred and amortized over the life of the contract. Premiums received on the sale of call options are recorded as liabilities and changes in the fair value of the liabilities are recognized in earnings.

MEASUREMENT UNCERTAINTY

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

FLOW-THROUGH SHARES

The resource expenditure deductions for income tax purposes relate to exploratory and development activities funded by flow-through share arrangements and are renounced to investors in accordance with income tax legislation. An estimate of the additional tax liability to be incurred and included in the future tax provision is recognized and charged to share capital at the time the resource expenditure deductions for income tax purposes are renounced to investors.

STOCK BASED COMPENSATION PLAN

Consideration paid by directors, officers and employees on the exercise of stock options under the stock option plan is recorded as share capital. No compensation expense is recognized with respect to stock options as the exercise price equals the market price of shares on the date of the grant.

PER SHARE INFORMATION

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the fiscal year. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effects of stock options and other dilutive instruments.

2.	(\$ thousands)	2001	2000
PROPERTY, PLANT AND EQUIPMENT	Petroleum and natural gas properties	92,170	66,777
	Other assets	406	380
		92,576	67,157
	Accumulated depletion and depreciation	(19,341)	(10,211)
	Net book value	73,235	56,946

During the year ended December 31, 2001, the Company capitalized \$0.7 million (2000 - \$0.6 million,) of general and administrative expenses related to exploration and development activities. As at December 31, 2001, the depletion calculation excluded unproved properties of \$4.7 million (2000 - \$3.7 million). As at December 31, 2001, the Company estimated its future site restoration costs to be \$6.7 million (2000 - \$5.3 million).

3.

BANK DEBT

(\$ thousands)	2001	2000
Direct advances	514	-
Bankers' acceptances	17,462	16,409
Total bank debt	17,976	16,409

The Company has a revolving term credit facility available up to \$35 million with a Canadian bank. The facility is available on a revolving basis for a period of 364 days until May 31, 2002. On this date, at the Company's discretion, the facility is available on a non-revolving basis for a one year term until May 31, 2003, at which time the facility would be due and payable. Alternatively the facility may be extended for a further 364 day period at the request of the Company and subject to approval by the bank. The credit facility is secured by a \$150 million fixed and floating charge debenture on the assets of the Company and it is subject to a semi-annual and annual review by the lender.

Borrowing is available by way of direct advances or Bankers' Acceptances and the facility provides for various interest rates and Banker Acceptance fee options, which are based on market rates in effect from time to time.

4.

SHARE CAPITAL

Authorized

Unlimited number of voting Common Shares, without par value.

Unlimited number of voting Class B Shares

Issued

(\$ thousands except share amounts)	Number	Amount
Common Shares		
Balance at December 31, 1999	14,922,000	10,727
Issued on exercise of stock options	485,000	257
For cash, pursuant to flow-through private placement	12,500	35
Tax effect on flow-through shares renounced	-	(16)
For cash, pursuant to private placement	4,000	10
Redemption of shares	(394,800)	(340)
Balance at December 31, 2000	15,028,700	10,673
Issued on conversion of Class B Shares	3,018,600	6,483
Issued on exercise of stock options	397,500	535
For cash, pursuant to flow-through private placement	700,000	1,701
Tax effect on flow-through shares renounced		(788)
For cash, pursuant to private placements	3,553,498	11,873
Share issue expense net of tax effect of \$270,976		(364)
Redemption of shares	(610,900)	(781)
Balance at December 31, 2001	22,087,398	29,332

(\$ thousands except share amounts)

	Number	Amount
Class B Shares		
Balance at December 31, 1999	1,170,900	6,487
Redemption of shares	(900)	(4)
Balance at December 31, 2000	1,170,000	6,483
Conversion to Common Shares	(1,170,000)	(6,483)
Balance at December 31, 2001	-	-
Warrants		
Balance at December 31, 2000	-	-
Issued pursuant to flow-through private placements	700,000	154
Issued pursuant to private placement	553,498	122
Balance December 31, 2001	1,253,498	276
Total Share Capital and Warrants	-	29,608

CONVERSION OF CLASS B SHARES TO COMMON SHARES

On July 6, 2001, the Company exercised its option to convert the issued and outstanding Class B Shares. As a result of the conversion, 2.58 Common Shares were issued for each issued and outstanding Class B Share. The conversion resulted in the issuance of 3,018,600 Common Shares for all the issued and outstanding Class B Shares of the Company.

ISSUE AND REDEMPTION/CANCELLATION OF SHARES:

On November 20, 2001 the Company issued, on a private placement basis to certain officers of the Company, 553,498 units, with each unit consisting of one Common Share and one Warrant, for \$2.43 per unit and 700,000 units, with each unit consisting of one flow-through Common Shares and one Warrant, for \$2.65 per unit. Total consideration for all 1,253,498 units was \$3.2 million which included a value of \$0.22 per Warrant for a total of \$0.3 million.

On December 3, 2001 the Company issued on a private placement basis, 3,000,000 Common Shares for a gross consideration of \$10.7 million.

During the year, 397,500 Common Shares were issued on the exercise of stock options by employees and directors of the Company. Total consideration was \$0.5 million.

During 2001, the Company purchased and cancelled 610,900 Common Shares for a total consideration of \$1.7 million pursuant to the normal course issuer bids (the "Bid") approved by the Canadian Venture Exchange. Of these totals, 119,400 Common Shares were purchased and cancelled for a total consideration of \$0.3 million under a Bid that expired on March 29, 2001 and 491,500 Common Shares were purchased and cancelled for a total consideration of \$1.4 million under a Bid that expires July 17, 2002. Of the total consideration paid, \$0.8 million, being the adjusted cost base of the shares for the Company, was charged to share capital and the balance of \$0.9 million was charged to retained earnings. Under the Bid that expires July 17, 2002, the Company can purchase up to 896,395 Common Shares.

FLOW-THROUGH SHARE EXPENDITURES

Pursuant to the November 20, 2001 flow-through share offering, the Company has renounced \$1.8 million of qualifying expenditures effective December 31, 2001. Of the total qualifying expenditures renounced, all costs will be incurred in 2002.

WARRANTS

Pursuant to the November 20, 2001 private placement, the Company issued 1,253,498 units consisting of one Common Share and one Warrant. The Warrants were valued at \$0.22 per Warrant for a total of \$0.3 million. One Common Share may be issued for each Warrant at a price of \$2.65 per share. The Warrants are exercisable on or after November 5, 2002 and expire November 5, 2004.

STOCK OPTIONS

Under the terms of the stock option plan (the "Plan"), directors, officers and employees are eligible to be granted options to purchase Common Shares. The Plan provides for the granting of up to 10 percent of the issued and outstanding Common Shares of the Company. As at December 31, 2001, the Company could grant up to 2,208,740 options.

The following table sets forth a reconciliation of the Plan activity through December 31, 2001:

<i>\$ except share amounts</i>	Number of options	Weighted average exercise price	Number exercisable at year-end	Weighted average exercise price
Balance, December 31, 1999	1,346,250	0.95	701,250	0.59
Granted	605,000	2.23		
Exercised	(485,000)	0.53		
Cancelled	(110,000)	2.40		
Balance, December 31, 2000	1,356,250	1.55	471,563	1.06
Granted	1,107,750	2.55		
Exercised	(397,500)	1.35		
Balance, December 31, 2001	2,066,500	2.12	776,250	1.57

The following table sets forth additional information related to stock options outstanding at December 31, 2001:

Range of exercise price (\$/share)	Number of options	Weighted average exercise price (\$/share)	Weighted average years to expiry	Number of options	Weighted average exercise price (\$/share)
0.50 – 1.99	440,000	0.94	1.74	342,500	0.80
2.00 – 2.99	1,525,750	2.37	3.79	433,750	2.17
3.00 – 3.55	100,750	3.55	4.96	-	-
0.50 – 3.55	2,066,500	2.12	3.27	776,250	1.57

EARNINGS AND CASH FLOW PER SHARE:

“Basic” earnings and cash flow per share are calculated using the weighted average number of Common Shares and Class B Shares outstanding during the period. The Common Shares and Class B Shares are considered in aggregate due to the equal participation rights of these shares. At December 31, 2001, the conversion ratio of 2.58 Common Shares for each Class B Share was used to convert the Class B Shares to Common Shares for the purposes of determining the weighted average number of shares for basic per share calculations (see Issued and redemption/cancellation of shares above). The weighted average number of Common Shares for the years ended 2000 and 1999 were calculated using respective closing trading prices on the CDNX of \$2.75 on the December 31, 2000 and \$2.50 on December 31, 1999. For the year ended December 31, 2001, the weighted average number of shares outstanding of 18,202,595 (2000 - 19,316,807, 1999 - 18,413,874) was used for basic per share calculations.

“Diluted” earnings and cash flow per share are calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options would be used to buy back Common Shares at the average market price for the period. As with the basic per share calculations, the Common Shares and Class B Shares are considered in aggregate. At December 31, 2001, the conversion ratio of 2.58 Common Shares for each Class B Share was used to convert the Class B Shares to Common Shares for the purposes of determining the weighted average number of shares for diluted per share calculations (see Issued and redemption/cancellation of shares above). For the years ended December 31, 2000 and 1999, the average price of Common Shares traded on the CDNX through out the year of \$2.38 and \$2.41 respectively were used to convert the Class B Shares to Common Shares instead of the closing trading price at year-end. At December 31, 2001, the weighted average number of shares outstanding of 18,979,720 (2000 - 20,569,743, 1999 - 19,106,711) was used for diluted per share calculations.

5.
INCOME TAXES

Future income taxes

(\$ thousands)	2001	2000
Excess of carrying value of capital assets over tax basis	13,242	10,934
Site restoration and abandonment allowance	(546)	(378)
Recognition of benefits of share issue costs	(309)	(183)
Flow-through share renouncements to be incurred in the following year	788	-
	13,175	10,373

Income tax expense (current and future)

(\$ thousands)	2001	2000	1999
Net income before taxes	9,661	11,049	2,190
Corporate income tax rate	43.3%	44.6%	44.6%
Expected future income taxes	4,183	4,928	977
Add (deduct):			
Non-deductible crown charges	2,332	2,272	745
Resource allowance	(2,499)	(2,485)	(764)
Alberta royalty tax credit	(217)	-	-
Other	(275)	(70)	(74)
	3,524	4,645	884

6.
SUPPLEMENTAL
CASH FLOW
INFORMATION

Changes in non-cash working capital

(\$ thousands)	2001	2000
Accounts receivable	(191)	(5,059)
Deposits and prepaids	(198)	(233)
Accounts payable	(3,682)	5,952
Income and other taxes payable	(2,076)	1,974
	(6,147)	2,634

Cash interest and taxes paid

(\$ thousands)	2001	2000
Cash interest	1,219	957
Cash income and other taxes	3,766	384

7.
FINANCIAL
INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable and bank debt. The fair value of these financial instruments approximate their carrying amounts.

The Company is party to certain off-balance sheet derivative financial instruments, consisting of crude oil and natural gas swap contracts. The Company enters into these contracts for the purpose of protecting its future earnings and cash flow for operations from the volatility of crude oil and natural gas commodity prices. The swap contracts reduce the fluctuations in petroleum and natural gas revenues by locking in fixed forward prices on a portion of its crude oil and natural gas production.

COMMODITY PRICE CONTRACTS

The Company has entered into several short-term arrangements for both oil and natural gas. For the year ended December 31, 2001, the Company realized a net loss of \$96 thousand (2000 - \$581 thousand) on its oil and natural gas price risk management.

Contracts outstanding in respect to financial instruments as at December 31, 2001 were as follows:

Contract	Volume	Strike Price	Term
Crude Oil			
Put option	1,300 bbls/d	US\$20.00	Jan 01/02 - Mar 31/02
Call option	1,300 bbls/d	US\$22.00	Jan 01/02 - Mar 31/02
Costless Collar*	500 bbls/d	US\$18.00 - US\$22.02	Apr 01/02 - Sep 30/02
Swap	500 bbls/d	US\$20.00	Apr 01/02 - Sep 30/02
Natural Gas			
Costless Collar*	4,000 GJs/d	CA\$3.00 - CA\$4.50	Jan 01/02 - Mar 31/02
Costless Collar*	4,000 GJs/d	CA\$3.25 - CA\$4.50	Apr 01/02 - Oct 31/02

*costless collar strike price indicates minimum floor and maximum ceiling

At December 31, 2001 the estimated the fair value of the above financial instrument transactions were as follows:

<i>(\$ thousands receivable (payable))</i>	
Crude oil swap*	(82)
Crude oil options*	13
Natural gas options	259

**based on Canadian dollar exchange rate of 1.5926 per U.S. dollar*

The above estimated fair values are based on the market value of these instruments as at year-end and represent the amounts the Company would receive or pay to terminate the contracts at year-end.

Credit Risk

The Company may be exposed to certain losses in the event of non-performance by counterparties to these contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions. The Company sells substantially all of its production to two primary purchasers under normal industry sale and payment terms. The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks.

8.
COMMITMENTS

The Company has certain lease commitments for its office premises through to November 30, 2002. As at December 31, 2001, the payments due under these commitments are approximately \$113 thousand. Subsequent to year-end, the Company entered into a commitment to lease additional office space from April 1, 2002 through to June 30, 2005. Total lease commitments on the existing and new office space are as follows:

<i>Year Commitment (\$ thousands)</i>	
2002	282
2003	335
2004	335
2005	196

(\$ thousands except per share amounts)	March 31	Three Months Ended 2001			Annual 2001
		June 30	Sept. 30	Dec 31	

FINANCIAL HIGHLIGHTS

Income Statement

Petroleum and Natural Gas Sales	10,113	9,508	7,457	6,124	33,202
Cash Flow from Operations	5,372	4,682	3,954	3,908	17,916
Per Share - Basic	0.30	0.25	0.22	0.20	0.98
Per Share - Diluted	0.28	0.25	0.22	0.19	0.94
Net Earnings	2,635	2,450	1,061	(491)	5,655
Per Share - Basic	0.15	0.13	0.06	(0.03)	0.31
Per Share - Diluted	0.14	0.13	0.06	(0.02)	0.30

Balance Sheet

Capital Spending					
Land Acquisitions and Retention	257	305	311	135	1,008
Geological and Geophysical	509	362	178	274	1,323
Drilling and Completions	4,724	1,297	3,705	2,176	11,902
Equipping and Facilities	1,788	362	1,360	706	4,216
Net Property Acquisitions (Dispositions)	(76)	187	1,315	5,519	6,945
Corporate Assets	5	3	-	17	25
	7,207	2,516	6,869	8,827	25,419
Total Debt					
Bank Debt	18,325	28,803	25,986	17,976	
Working Capital Deficiency (Surplus)	5,776	(6,895)	115	(562)	
	24,101	21,908	26,101	17,414	
Shareholders' Equity	26,095	28,545	28,355	40,964	

Common Share Information (thousands except where otherwise stated)

Shares Outstanding at End of Period				
- Common	14,909	14,909	17,494	22,087
- Class B Shares	1,170	1,170	-	-
Weighted Average Shares Outstanding for the Period				
- Basic	18,063	18,402	17,734	19,170
- Diluted	19,268	19,056	18,368	20,180
Volume Traded During Quarter - CDNX	461	504	589	3,354
Common Share Price (\$) - CDNX				
- High	3.75	4.25	3.35	4.05
- Low	2.45	3.30	2.49	2.30
- Closing	3.75	3.35	2.49	3.95

(\$ thousands except per share amounts)	March 31	Three Months Ended 2001			Annual 2001
		June 30	Sept. 30	Dec 31	

OPERATIONAL HIGHLIGHTS

Production

Natural Gas (mcf/d)	4,635	7,735	7,949	7,745	7,027
Crude Oil and Natural Gas Liquids (bbls/d)	1,895	1,728	1,831	1,943	1,849
Total (BOE/d) (6:1)	2,667	3,017	3,156	3,233	3,020
Total (BOE/d) (10:1)	2,358	2,502	2,626	2,717	2,551

Pricing

Natural Gas (\$/mcf)	8.80	5.64	2.77	2.90	4.57
Crude Oil and Natural Gas Liquids (\$/bbl)	37.79	35.20	32.25	22.72	31.81

Selected Highlights (\$BOE)

Weighted Average Sales Price	42.13	34.63	25.68	20.59	30.12
Royalties, net of ARTC	9.50	6.58	3.93	3.20	5.61
Production Expenses	4.68	4.65	4.53	4.60	4.61
Netbacks	27.94	23.40	17.22	12.79	19.90
General and Administrative	0.18	0.82	1.04	1.60	0.95
Depletion and Depreciation	8.11	8.35	8.82	10.67	9.05
Net Earnings	10.98	8.92	3.65	(1.65)	5.13

Gross Drilling Results

Natural Gas	6	0	0	0	6
Crude Oil	2	0	8	3	13
Dry	3	0	1	0	4
	11	0	9	3	23
Success Rate (%)	73	-	89	100	83

Net Drilling Results

Natural Gas	1.4	0	0	0	1.4
Crude Oil	1.1	0	5.4	2.8	9.3
Dry	0.8	0	1.0	0	1.8
	3.3	0	6.4	2.8	12.5
Success Rate (%)	76	-	84	100	86

HISTORICAL INFORMATION

Financial

Petroleum and Natural Gas Sales	33,202	29,593	11,162	4,476	81
Cash Flow from Operations	17,916	14,604	5,367	2,219	34
Per Share - Basic	0.98	0.76	0.29	0.19	0.01
Per Share - Diluted	0.94	0.71	0.28	0.14	0.01
Net Earnings (Loss)	5,655	5,870	1,072	321	6
Per Share - Basic	0.31	0.30	0.06	0.02	0.00
Per Share - Diluted	0.30	0.29	0.06	0.02	0.00
Net Capital Expenditures	25,419	23,494	18,802	15,714	9,146
Total Assets	81,935	65,325	41,871	26,962	17,490
Working Capital Deficiency	(562)	5,517	2,951	2,681	(7,410)
Long Term Debt	17,976	16,409	9,418	-	-
Shareholders' Equity	40,964	23,800	18,613	15,878	15,983

Operating

Production

Natural Gas (mcf/d)	7,027	5,718	3,784	-	-
Crude Oil and NGL (bbls/d)	1,849	1,303	803	655	366
Total (BOE/d) (10:1)	2,552	1,875	1,181	655	366
Total (BOE/d) (6:1)	3,020	2,256	1,434	655	366

Pricing

Natural Gas (\$/mcf)	4.57	4.92	2.91	-	-
Crude Oil and Natural Gas Liquids (\$/bbl)	31.81	40.44	24.38	18.10	24.68

Proven Reserves

Natural Gas (mmcf)	20,987	21,025	19,232	10,033	-
Crude Oil and NGL (mbbls)	3,960	4,425	3,081	2,411	895

Present Value (\$ millions discounted at 12% before tax)

	71.3	81.0	43.7	24.3	8.3
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Undeveloped Land

Gross Acres	97,000	257,000	241,000	209,000	201,000
Net Acres	149,000	194,000	199,000	187,000	180,000

Share Information (thousands)

Common Share Price (\$) - CDNX

High	4.25	3.06	3.10	3.00	N/A
Low	2.30	1.75	1.50	1.40	N/A
Closing	3.95	2.75	2.50	3.00	N/A

Volume Traded - CDNX

	4,908	1,493	545	234	N/A
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Shares Outstanding at Year End

Common Shares	22,087	15,029	14,922	13,602	11,602
Class B Shares	-	1,170	1,171	1,171	1,171

Weighted Average Common Shares

Basic	18,203	19,317	18,414	15,626	4,481
Diluted (Treasury Stock Method)	18,980	20,570	19,107	19,775	4,481

SHAREHOLDER INFORMATION

Annual Meeting

The Annual and Special General Meeting of Shareholders will be held on Tuesday, May 14, 2002 at 10:00 a.m. in the Wildrose Room, Sheraton Suite Eau Claire, Calgary, Alberta.

Annual Information Form

Copies of the Annual Information Form are available to shareholders upon request.

www.progressenergy.com

Shareholders and interested investors are encouraged to visit our web site. Historical public disclosure documents (in PDF format), latest roadshow material, press releases are all available. Filings also available at: www.sedar.com

Transfer Agent

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Calgary, Alberta
T2P 3S8
Toll Free: 1-888-267-6555

Investor Relations

Steven A. Allaire
Vice President Finance & CFO
Telephone: (403) 216-2510 ext. 121
Facsimile: (403) 216-2514
Email: ir@progressenergy.com

Corporate Governance

A system of corporate governance for the Corporation has been established to provide the Board of Directors, management and shareholders of the Corporation with effective governance. A more detailed discussion of corporate governance is available in the Information Circular for the Annual and Special General Meeting of Shareholders.

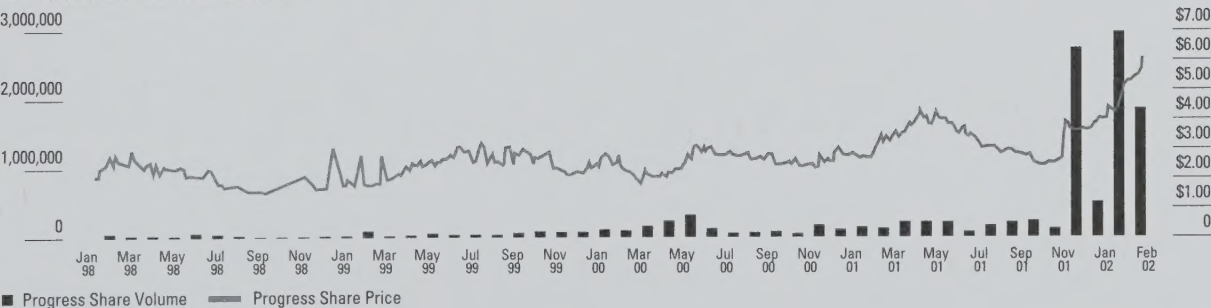
Stock Exchange Listing

The Toronto Stock Exchange
Symbol: PGX

Estimated Release Date of Quarterly Results

First Quarter	May 2, 2002
Second Quarter	July 25, 2002
Third Quarter	October 24, 2002

Share Volume and Share Price



CORPORATE INFORMATION

Directors

John M. Stewart ⁽¹⁾
Chairman
Progress Energy Ltd.
Vice Chairman
ARC Financial Corporation
Calgary, Alberta

David D. Johnson
President &
Chief Executive Officer
Progress Energy Ltd.
Calgary, Alberta

John A. Brussa ⁽¹⁾
Partner
Burnet, Duckworth and Palmer
Calgary, Alberta

Frederic C. Coles
Independent Businessman
Calgary, Alberta

Gary E. Perron ⁽¹⁾⁽²⁾
Vice President and
Managing Director
BMO Nesbitt Burns
Calgary, Alberta

Terrance D. Svarich ⁽²⁾
President
Devsun Limited
Calgary, Alberta

Officers

David D. Johnson
President and
Chief Executive Officer

Steven A. Allaire
Vice President Finance and
Chief Financial Officer and
Corporate Secretary

Michael R. Culbert
Vice President Marketing and
Business Development

Edward J. Kalthoff
Vice President Land

William J. Lewington
Controller

Management
John P. Andersen
Exploration Manager North

Rick A. Bawol
Exploitation Manager

Dave L. Christie
Exploration Manager South

Kathleen Y. Fox
Business Development Manager

Stanley M. Prenioslo
Exploration Manager
Saskatchewan

Jeff A. Screen
Production Operations Manager

Corporate Office

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Calgary, Alberta
T2P 5E9
Telephone: (403) 216-2510
Facsimile: (403) 216-2514
Website:
www.progressenergy.com

Banker

Bank of Montreal
Corporate Banking
Canada Trust Tower
1400, 421 – 7th Avenue S.W.
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T2P 2P2

Solicitor

Burnett, Duckworth & Palmer
1400, 350 – 7th Avenue S.W.
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T2P 3N9

Auditor

KPMG LLP
1200, 205 – 5th Avenue S.W.
Calgary, Alberta
T2P 4B9

Consulting Engineer

Gilbert Laustsen Jung
Associates Ltd.
4100, 400 – 3rd Avenue S.W.
Calgary, Alberta
T2P 4H2

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation Committee

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